



# United Bankshares (UBSI)

Updated April 28<sup>th</sup>, 2018 by Josh Arnold

## Key Metrics

<b>Current Price:</b> \$35	<b>5 Year CAGR Estimate:</b> 13.5%	<b>Quality Percentile:</b> N/A
<b>Fair Value Price:</b> \$41	<b>5 Year Growth Estimate:</b> 6.0%	<b>Momentum Percentile:</b> N/A
<b>% Fair Value:</b> 84%	<b>5 Year Valuation Multiple Estimate:</b> 3.6%	<b>Total Return Percentile:</b> N/A
<b>Dividend Yield:</b> 3.9%	<b>5 Year Price Target:</b> \$55	<b>Valuation Percentile:</b> N/A

## Overview & Current Events

United Bankshares was formed in 1982 and since that time, has acquired 31 separate banking institutions. This focus on acquisitions, in addition to organic growth, has allowed UBSI to expand into a regional powerhouse in the Mid-Atlantic with a \$3.6 billion market cap, \$19 billion in total assets and annual revenue of \$750 million.

UBSI's recent Q1 earnings report showed record results as UBSI continues to grow its asset base and, for 2018, enjoy a lower tax rate. Pre-tax earnings were up 35% as UBSI's acquisition of Cardinal early last year helped boost results. Further, UBSI continues to see net interest income growth in excess of funding costs, meaning that margins remain on an upward path. UBSI also has higher fee income from Cardinal's mortgage business, so growth has been impressive.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$2.00	\$1.55	\$1.65	\$1.61	\$1.64	\$1.70	\$1.92	\$1.98	\$1.99	\$1.54	<b>\$2.50</b>	<b>\$3.35</b>
<b>DPS</b>	\$1.16	\$1.17	\$1.20	\$1.21	\$1.24	\$1.25	\$1.28	\$1.29	\$1.32	\$1.33	<b>\$1.36</b>	<b>\$1.48</b>

EPS has been pretty steadily moving higher in recent years with the exception of last year, the product of higher noninterest expense from integrating Cardinal. However, that was a one-time blip as Cardinal was a huge acquisition for UBSI and thus, going forward, we are expecting 6% annual EPS growth. Note that this year's results will be boosted by a lower tax rate but that also affords UBSI a permanent increase in return on assets, boosting margins.

UBSI will achieve this growth through continued asset base growth as well as margin expansion. UBSI's asset base has grown on average by 11% annually in the past decade but in the past four years, that number is a staggering 22%. It grows organically but the main source of its success has been acquisitions, something it has proven willing and able to do on a large scale. In addition, continued low funding costs but rising market rates have allowed UBSI to boost its margins recently. With rates still moving higher in excess of the rate of growth in deposit costs, UBSI looks poised to continue this growth. There are some powerful tailwinds for UBSI right now so the outlook is very bright indeed.

Growth in the dividend has taken a back seat to management's acquisition-heavy strategy but UBSI's yield is still very strong at nearly 4%. We see the payout continuing its low single digit growth rate moving forward.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	16.6	12.7	15.7	15.5	15.9	16.4	16.6	19.4	19.3	23.6	<b>13.8</b>	<b>16.5</b>
<b>Avg. Yld.</b>	3.5%	6.0%	4.6%	4.8%	4.8%	4.5%	4.0%	3.4%	3.4%	3.8%	<b>3.9%</b>	<b>2.7%</b>

UBSI's P/E multiple has moved around some in the past decade but overall, it has been fairly stable. Last year's multiple was inflated by a drop in EPS and this year's valuation is seeing the opposite impact as EPS rebounds due to the factors discussed. However, over time we expect UBSI to see its multiple move back to 16.5 from the current 13.8, representing a more normalized valuation. That implies a meaningful 3.6% tailwind to total returns going forward as a result of the share price suffering in 2017; we believe that situation will be rectified by a rebound in the valuation.

As a result of higher EPS, a higher valuation and slow dividend growth, the yield looks poised to fall significantly in the coming years to a still-respectable 2.7%. UBSI's current yield is strong but this is not a dividend growth story.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
ROA	1.09%	0.86%	1.01%	0.89%	0.98%	0.98%	1.05%	1.10%	1.01%	0.85%	<b>1.35%</b>	<b>1.40%</b>
Debt/A	91%	90%	89%	89%	88%	88%	87%	86%	85%	83%	<b>82%</b>	<b>80%</b>
Int. Cov.	1.8	2.0	2.4	3.3	4.0	5.0	6.1	6.7	6.5	5.2	<b>6.0</b>	<b>6.2</b>
Payout	58%	75%	73%	72%	75%	73%	64%	64%	66%	87%	<b>54%</b>	<b>44%</b>
Std. Dev.	78.3%	66.4%	36.9%	41.6%	22.7%	18.5%	20.7%	23.3%	25.4%	24.9%	<b>28.0%</b>	<b>35.0</b>

UBSI's quality metrics have steadily improved over the past decade, the product of strong growth that is financed prudently, as well as enhanced fundamentals in the banking sector. ROA dipped last year but Q1 results showed a strong rebound for this year as a result of higher rates and improving margins. We expect ROA will continue to drift higher as a result of leverage on noninterest expense as well as rising net interest margins. Impressively, UBSI has managed to significantly grow its asset base without undue stress on its balance sheet as its debt financing drifts lower, also improving interest coverage. The payout ratio should move down significantly in the coming years as EPS growth outpaces growth in dividends.

UBSI's competitive advantage is in its strong market position in the areas it serves. UBSI is headquartered in West Virginia where competition is relatively light and it is expanding into more densely populated areas like northern Virginia. That doesn't make it immune from recessions but its performance in 2008 and 2009 was exemplary given that many banks in the US struggled enormously or went out of business entirely.

### Final Thoughts & Recommendation

Overall, UBSI looks very compelling here. We see total annual returns of 13.5% going forward, consisting of the current 3.9% yield, 6% EPS growth and a 3.6% tailwind from the valuation. UBSI's big down year in 2017 combined with a strong EPS growth outlook have created a stock that is trading well under fair value with a big yield and bright outlook. UBSI would therefore be attractive for just about any investor as it offers value, growth and a sizable current yield. UBSI looks very compelling here and we rate it a buy for those looking for financial sector exposure.

### Total Return Breakdown by Year

